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Everything everywhere, almost all at once

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Everything, everywhere, almost all at once

In the Oscar-winning movie, an unlikely hero fights strange, seemingly never-ending dangers as the fate of the world hangs in the balance. In our reality, the frequency of new events chasing each other has exploded. Financial markets can't escape this trend. There's no one hero to save us. And the fight will be fought for many more years

Empirical research has shown that our collective attention span has been reduced significantly with the rise of social media. Even over the last 10 years, the length of time that any one hashtag has stayed in the Top 50 has almost halved. The frequency of new events chasing each other has exploded, so why would the supposedly efficient and highly communicative financial markets escape this trend?

Increasing digitalisation and social media were drivers behind the recent unprecedented withdrawals of bank deposits within just a few hours. Whether there is a link between shrinking collective attention spans and the frequency of financial crises is an interesting research question for new PhD students but not something we can answer here. However, what is clear is that the frequency of crises has become mind-blowing in recent years: the pandemic, lockdowns, war and now, banking turmoil. Everything, everywhere, almost at once.

Financial crises always seem to come on suddenly but take more time to resolve themselves. In a globalised world and highly interconnected markets, the lesson of the last 15 years is that second or third-round effects from financial turmoil can occur in unexpected places. Even if the financial sector as a whole looks more resilient and the toolkits of supervisors, governments and central banks are larger than 15 years ago, there is no reason for complacency. We remain on high alert. The coming months could still show further cracks, either in the financial sector or the real economy, or, even worse, in both.

Real economy impacts will last longer

In our base case scenario, tensions in financial markets will remain elevated, with no severe escalation, before calming down again. The impact on the real economy, however, will last longer. Monetary policy tightening for us was already the most underrated downside risk for both the US and the eurozone economy.

Every undergraduate student of economics knows that tighter monetary policy at some point in time will drag down the economy. Or, to put it differently, why have central banks at all if the most aggressive monetary policy tightening in decades leaves no mark on the economy? Hence, the rate hikes so far, plus financial sector turmoil, will weigh on lending and, consequently, investment and consumption. As a result, we feel more convinced than ever with our recession call for the US economy and a subdued growth forecast for the eurozone.

The rate hikes should end soon

In the face of recent market turmoil, central bankers didn't blink. Both the Federal Reserve and the European Central Bank continued their hiking cycles and are trying to separate policy rates as a tool to fight inflation from tools tackling financial instability. At the same time, recent turmoil is a strong reminder that both the Fed and the ECB are very close to the point where more (rate hikes) is not always better. In fact, the expected longer-term real economic fallout will actually help central banks to reach their inflation goals earlier.

As a result, we expect the Fed and the ECB to stop hiking before the summer. A recession in the US will force the Fed to significantly cut rates towards the end of the year, while stubbornly high core inflation will bind the ECB to a "high-for-longer" stance until mid-2024.

Some things seem to never end. Think of all those reality TV programmes; even Harry Potter is to get its own TV series. Financial crises have a longer history, but we know they eventually do end. Their impact, however, can reverberate for much longer.

Our main calls this month

United States: Even before the failure of Silicon Valley Bank and Signature Bank, lenders were becoming cautious. The recent turmoil will make small and regional banks more reluctant to lend, especially with regulators likely to take a more proactive stance. The combination of higher borrowing costs and reduced access to credit means a greater chance of a hard landing, which will help to get inflation lower more quickly. The Fed is inclined to hike once more in May, but rate cuts will be a theme for the second half of 2023. We favour 100bp of easing in the fourth quarter of this year.

Eurozone: Lower energy prices continue to act as a tailwind to the eurozone's economy, with economic sentiment further improving in the first quarter. However, credit dynamics are already softening (a trend which is likely to be exacerbated by the recent banking turmoil) and tighter monetary policy is likely to slow down GDP growth from the second half of the year onwards, resulting in subpar growth both in 2023 and 2024. Inflation is over the peak, with a number of disinflationary forces leading to a gradual decline. However, the still too high level of core inflation will push the ECB into two additional 25bp rate hikes before the summer.

China: Manufacturing was worse in March compared to February. But it is the opposite for non-manufacturing PMIs. The difference highlights the divergence in growth rates between China and major developed economies. This makes us worry that external demand is dragging down China's economic growth. The People's Bank of China (PBoC) cut the required reserve ratio and injected a significant amount of liquidity into the financial system to smooth out the seasonal interest rate spikes at the end of the first quarter. We do not expect further easing from the PBoC, instead, we expect the government to quickly provide fiscal stimulus to support the domestic economy.

Asia ex-China: The downcycle of semiconductors will continue to weigh on Asian manufacturers. China's reopening has not yet supported the recovery of the interregional trades as the semiconductor cycle is mainly driven by the developed market's business cycle. However, service trade has improved recently clearly getting boosted by inflows of Chinese tourists. With inflation passing the peak, the central banks of the region will stay on hold and see how the recent pick up in oil prices evolves and impacts inflation.

Central & Eastern Europe (CEE): The slowdown in inflation has begun across the region, while most CEE4 countries are already in a technical recession. However, the labour market remains strong and wage growth is a risk to more sticky inflation for the rest of the year. Overall, we still see no room for monetary easing despite dovish market expectations but signs of more accommodative fiscal policy are increasing. Meanwhile, the conflict between Hungary and Poland and the European Commission is unlikely to be resolved anytime soon, which is clouding the outlook for investors. Romania, on the other hand, is becoming a positive story within the CEE region.

FX: Distress in the US banking system briefly saw the dollar rally in March, but fast action by US authorities has allowed investors to now focus more on the forthcoming Fed easing cycle. EUR/USD can press the top of its 1.05-1.10 2023 trading range over the coming months, although a clean upside break-out may not emerge until the second half of the year when the Fed starts to acknowledge the need for lower rates. Expect continued Japanese yen outperformance – especially if the Bank of Japan tweaks its Yield Curve Control target in June.

Market rates: Curve inversion equals pain. The manifestation of that pain is typically a recession, and the antidote to that is rate cuts. A lot of this is now being discounted. Banking sector pain has eased the inversion but with more rate cuts discounted. The market is looking through inflation risks and towards recessionary ones. Going forward, economies go into recession. The inflation discount eases. Rate cuts get delivered. Treasuries outperform Bunds. US market rates converge on 3%, and the Fed gets there eventually too and the ECB much later.

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6 key things to know about the financial world right now

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Recent market turmoil has been troubling, to say the least. So where are we? And where are we headed? We have some answers

1 The impact on the wider banking sector and what's coming next

The global banking sector has been hit by deep concerns over the impact of aggressive monetary policy tightening on the sector. There were large swings in various markets in March, but the stresses in financial markets have since substantially eased.

In the US, we have seen smaller regional lenders exhibit substantial deposit outflows which, combined with the unrealised losses on their securities holdings, have resulted in banks burning through their liquid assets at a very fast pace. These events have led to the demise of three regional banks so far. All (including uninsured) depositors of Silicon Valley Bank and Signature Bank were fully protected, while shareholders and certain debtholders were not.

The message from US Treasury Secretary Janet Yellen has been seen as rather conflicting on the potential treatment of uninsured non-systemic bank deposits, creating substantial uncertainty among depositors and in financial markets. According to Yellen, the US could take similar steps to guarantee deposits at smaller banks to protect the banking system, but no blanket insurance on deposits is being considered at the moment.

In Europe, Credit Suisse was forced to merge with its stronger domestic rival, UBS. We consider that the problems of Credit Suisse are more company specific and started long before the US events. Its position considerably deteriorated in the fourth quarter of last year, when it suffered from substantial client fund and deposit outflows, which gained more speed after the general market sentiment weakened.

Most European banks are impacted by these events mainly via the more cautious market sentiment. Debt risk premiums widened, and the sharp swings in financial markets closed the primary bond markets. While bond markets have now opened up to a limited degree, wider spreads make it more expensive for banks to fund their operations, the impact of which will come through only slowly as banks advance with their funding programmes.

The decision of the Swiss authorities to wipe out the Credit Suisse AT1 debtholders resulted in the AT1 market being severely hit. It is doubtful that banks will be able to issue new AT1 anytime soon, increasing the likelihood of outstanding AT1 notes being extended. We consider that the recent events in the banking sector have resulted in substantially increased uncertainty, which is likely to continue to be reflected as substantial short-term volatility in credit markets. We expect bank spreads to be negatively impacted in general and also in the longer term, whether in bank capital or in bank senior debt, as bank investors factor in more uncertainty regarding resolution practices.

2 This is neither Lehman 2.0 nor Savings and Loans re-run from the 80s

So far, the problems have been concentrated in US regional banks and one specific weaker entity in Europe. The European issue has been more or less addressed by prompt interventions by the Swiss government and central bank. In the US, the problems are concentrated in non-systemic banks, while larger banks may actually have benefitted from new deposit inflows and business attracted by their systemic status. This makes the likelihood of a wide systemic crisis quite limited. We consider that stabilisation of deposit developments in the US would be key for a more pronounced stabilisation in bank credit spreads too. So far, no institution under pressure has played a similar role in the global banking industry as Lehman Brothers did. While it cannot be excluded that other institutions are suffering from the same symptoms as those under pressure in recent weeks, a cascading effect as experienced during the 2007-09 crisis does not look likely.

We're still in the early stages, so the range of possibilities, along with further developments, is wide. In the US, even if the problem seems to have been contained so far, the full impact of recent events is still to unfold. Banks were already tightening lending standards markedly (adjusting terms of borrowing, covenants, size of credit lines, maximum maturity lengths, etc., as highlighted by the Federal Reserve's Senior Loan Officer survey). The risk now is that lending conditions will tighten even further as small and regional banks see their deposit base shrink and regulators recognise that they need to take a more proactive approach, making banks even warier.

Small banks (less than $250bn of assets) account for 43% of all commercial bank lending in the States, up from 30% in 2008, so they have become more important for the US economy. If they pull back, it is doubtful that large banks can completely fill the void. Moreover, small banks account for more than two-thirds of all outstanding commercial real estate lending and more than a third of all outstanding residential real estate lending. Should price falls for these assets accelerate, the balance sheet position of the small and regional banks could look even more strained and intensify the turmoil.

3 Your concerns about Europe

Since the financial crisis and the euro crisis, large European banks have been subject to much stricter regulation than before. The Single Supervision Mechanism, together with national financial supervisors, has clearly improved transparency, stress tests and supervision. Also, the Single Resolution Mechanism should help break the doom loop between sovereigns and banks that played such a prominent role during the euro crisis.

More generally speaking, the European banking system is supported by strong capital and loss-absorption buffers. These offer banks room to absorb the impact of the weakening of credit quality. Banks are also required to meet stringent requirements on liquidity (LCR) and longer-term funding (NSFR). These factors make the system generally well protected against negative shocks.

European banks have raised a record-breaking amount of debt across covered bonds to unsecured debt from capital markets this year, that is before the latest chain of negative events started to unfold. This makes banks better positioned to weather the closure of primary debt markets for now. That being said, the bulk of the funding that the European Central Bank has offered to banks via its TLTRO-III programme matures in only three months' time in June. Also, the collateral relief measures offered to banks during the Covid-19 crisis are set to tighten further in tandem. If we experience further disturbances in bank funding markets, the ECB may choose to offer banks access to additional liquidity, potentially restarting (T)LTROs and/or lowering collateral requirements again.

4 Tightening lending standards

In the eurozone, financial stress has only increased moderately so far. The ECB's own index of systemic stress increased in the first days after the market turmoil, but only to levels last seen around the turn of the year. The war in Ukraine and the start of the hiking cycle caused stress to jump significantly more than what we've seen so far. Credit conditions were already being tightened on the back of recessionary concerns and higher rates.

Before the events of the past couple of weeks, credit conditions were already being tightened on the back of recessionary concerns and higher rates. The ECB's bank lending survey also suggested that banks were expecting to further tighten standards in the months ahead, on top of which comes the impact of the current banking turmoil. With CDS spreads for banks widening, funding costs will increase and could eventually lead to even tighter lending conditions.

For the US, the Senior Loan Officer survey from the Federal Reserve is the most obvious indicator to follow, but there are other data points, such as The National Federation of Independent Businesses' Small Business Optimism Index. It has a sub-component titled “availability of loans versus 3M ago” and “expected credit conditions over next 3M”. This is starting to tentatively deteriorate. There is also monthly data regarding lending to commercial and industrial companies, and it fell month-on-month in February, the first monthly decline since September 2021. That said, it is still up 12% year-on-year and by 20% on 2019 levels, but this is something we will be keeping a very close eye on.

The combination of higher rates, less credit availability and weakening business sentiment suggests the risks are to the downside. On the consumer side, we know mortgage applications for home purchases have more than halved. Consumer credit numbers are still coming in reasonably hot, but the rising default rates on car loans are a signal that all is not well. The latest consumer sentiment data suggests the appetite to buy 'big ticket items' such as cars, houses and household appliances is waning, so we would expect consumer borrowing to slow, especially if households get spooked that their savings aren't safe.

5 ING's base case for the economy

Our existing base case was already more cautious than consensus and factored in the adverse impact of the rapid monetary policy tightening so far. It was clear that at some point, something would break, be it something in the real economy or in financial stability. In any case, recent developments have strengthened our base case scenario of a recession in the US and subdued growth in the eurozone. Where previously the risks were clearly skewed to more resilient growth and higher central bank rates, it's now more symmetric.

Until last month, the main drivers of the different scenarios had been energy prices and monetary policy, while now it's credit conditions or lending standards as well as the health of corporate balance sheets which determine the different scenarios.

The prospects of a technical recession have increased again in the eurozone on the back of even tighter credit conditions. While risk-free interest rates have actually dropped, bank lending rates are likely to increase further, potentially hampering investment. Corporates tapping bond or equity markets could be an alternative for bank funding, but given the eurozone's high reliance on banks, this is still unlikely to be a big game-changer. Some financial stress could actually help bring down inflation faster than expected but too much financial stress would push the eurozone into recession. Up to now, risks of a return of the euro crisis have remained muted. However, in the case of longer-lasting financial stress, the likelihood of yet another euro crisis clearly increases.

In the US, higher borrowing costs and reduced access to credit mean a greater chance of a hard landing for the US economy. This will help to get inflation lower more quickly than would otherwise have happened. Rate cuts, which we have long predicted, are likely to be the key theme for the second half of 2023, and we are favouring 100bp of easing in the fourth quarter of this year.

6 The focus on central banks

Central banks have pretty much unanimously adopted the mantra that financial stability and monetary policy can be treated independently and that policymakers have different tools for different problems. It's true that the likes of the Federal Reserve and European Central Bank have become more nimble in creating and implementing tools to unblock specific areas of the financial system, exemplified in March 2020, where they eased challenges facing money market funds; also in the UK late last year by the temporary buying of government bonds to stabilise LDI pension funds. Central banks, chiefly the Fed, have already been quick off the mark with new schemes addressing the current market issues. But the difference between now and previous episodes of market stress is that the primary cause is the higher interest rate environment itself. And that ultimately makes it hard to disentangle the financial stability issues from future monetary policy decisions.

As Fed Chairman Powell mentioned after the March FOMC Fed rate decision, tighter credit conditions and declining bank lending would have a similar impact as rate hikes would. Essentially, this means that central banks will be monitoring closely whether tighter financial conditions are already being achieved thanks to banks becoming more cautious due to the current turmoil. If that is the case, central bank peak rates may be reached earlier as commercial banks are doing the work for them.

If nothing else, it's now clear that rate hikes are having an impact and that policy is generally fairly restrictive. While central bank doves were initially slow to move away from "transitory" inflation predictions during Covid-19, something similar may be true of the inflation hawks today. Recent events are likely to see policymakers become more vocal about the increasingly two-sided risks to growth as interest rates ratchet higher.

For the Fed, we expect a final 25bp hike in May, leaving the Fed funds range at 5-5.25%. The feedback loop from financial stresses onto the broader economy is significant via both higher borrowing costs and less credit availability. With the risk of a hard landing increasing, which should weigh on inflation, we expect the Fed to cut rates by perhaps 100bp in the fourth quarter. This would take the Fed funds target rate range to 4.00-4.25%. We then expect rates to head to 3% in 2024.

For the ECB, the latest financial stresses also mark the start of the final phase of rate hikes. Things would have to get worse for the ECB not to hike again in May, but this time a 25bp rate hike looks like the most plausible option. After a final rate hike by another 25bp in June, Europe's central bank is likely to move into a 'wait-and-see' stance. With core inflation still stubbornly high, we cannot see the ECB cutting rates before the second half of 2024.

Our view on the major central banks

We think the US Federal Reserve will hike rates once more while we could see two more increases from the European Central Bank before the summer. On the other hand, we're expecting the Bank of England to pause

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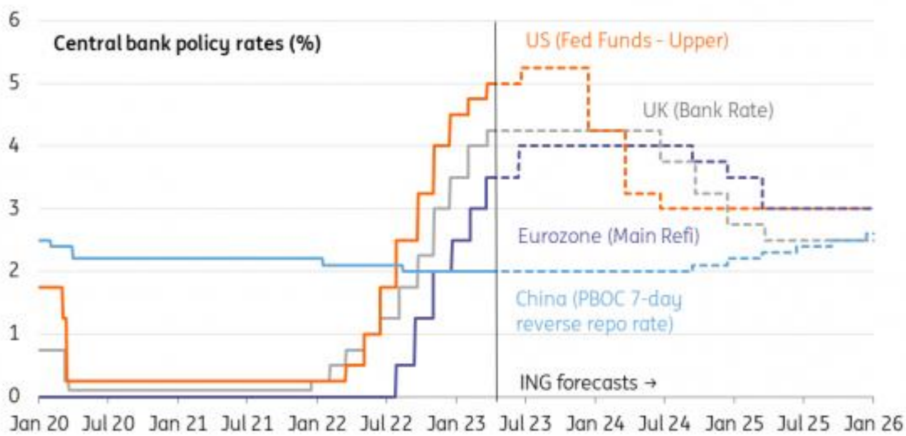
Our major central bank forecasts



Source: Macrobond, ING

Federal Reserve

A month ago the Fed funds rate range was on course to hit 5.5-5.75%, with some commentators talking about 6%. Following the recent banking turmoil, markets now see only a 50:50 chance of one last hike to 5-5.25%. Even before the recent banking failures, the economy was experiencing a tightening in lending conditions, which we felt would weigh on credit flow. We think it's inevitable that banks will become more conservative in their lending while regulators will be more proactive in their monitoring of what banks are doing.

We agree that we could get one final 25bp hike in May, but the combination of higher borrowing costs and reduced access to credit means a greater chance of a hard landing for the economy that will get inflation lower more quickly. Historically, it has been just six months between the last hike in a cycle and the first rate cut. We are now forecasting 100bp of easing in the fourth quarter of this year.

European Central Bank

As long as the current banking crisis remains contained, the ECB will stick to the widely communicated distinction between using interest rates in the fight against inflation and liquidity measures plus other tools to tackle any financial instability. With no signs of any disinflationary process, discounting energy and commodity prices, as well as the fact that inflation has increasingly become demand-driven, the ECB will remain in tightening mode.

Still, the turmoil of the last few weeks has been a clear reminder for the ECB that hiking interest rates, and particularly the most aggressive tightening cycle since the start of the monetary union, comes at a cost. In fact, with any further rate hike, the risk that something breaks increases. This is why we expect the ECB to tread more carefully in the coming months. In fact, the ECB has probably already entered the final phase of its tightening cycle. It's a phase that will be characterised by a genuine meeting-by-meeting approach and a slowdown in the pace, size and number of any further rate hikes. We're sticking with our view that the ECB will hike twice more – by 25bp each before the summer – and then move into wait-and-see mode.

Bank of England

The Bank of England kept its options open in March, hiking by a relatively modest 25bp. It’s pretty clear that any further hikes are highly data-dependent, and for now things are looking more encouraging on the inflation front. The Bank’s own survey of businesses suggests price-setting behaviour is becoming less aggressive, while – as the BoE acknowledges – wage growth tentatively appears to have peaked on a three-month annualised basis. Services inflation should start to come down in time with lower gas prices.

Assuming these trends continue then we think a pause in May is likely. That’s also partly dependent on banking sector stability, but like its peers overseas, the BoE will keep reiterating that it has separate tools that are better suited to maintaining financial stability than interest rates themselves. Even before the recent drama, the BoE had set a much lower bar to pausing hikes than its peers.

People's Bank of China

Apart from the cut in the required reserve ratio (RRR) that generated CNY500bn in liquidity near the end of March, the central bank also injected CNY698bn of liquidity into the money market through daily open market operations between 20 March and 31 March. These operations hint that loan growth in March should continue to strengthen after the robust performance seen so far this year.

The central bank needs to give more liquidity into the money market to keep interest rates stable. Another reason for a large liquidity injection is to smooth out seasonal spikes in interest rates at the end of the quarter. The RRR cut could also serve as a preventive measure in case of money market tightness from the global financial market turmoil spreading to China. In short, the central bank is currently in pro-growth mode to make sure the recovery is on track. Further easing is not expected as growth in China is usually front-loaded in the first quarter.

Commodities: Europe ends winter with comfortable gas storage

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We have finally reached the end of the heating season and Europe has managed to end winter with storage at record levels for this time of year. The job of refilling storage through the injection season should be much easier, assuming no big supply surprises. Oil prices are likely to trade higher through the year following surprise cuts from OPEC+

Gas Storage Barcelona Spain - Feb 2023

Record-high European gas storage

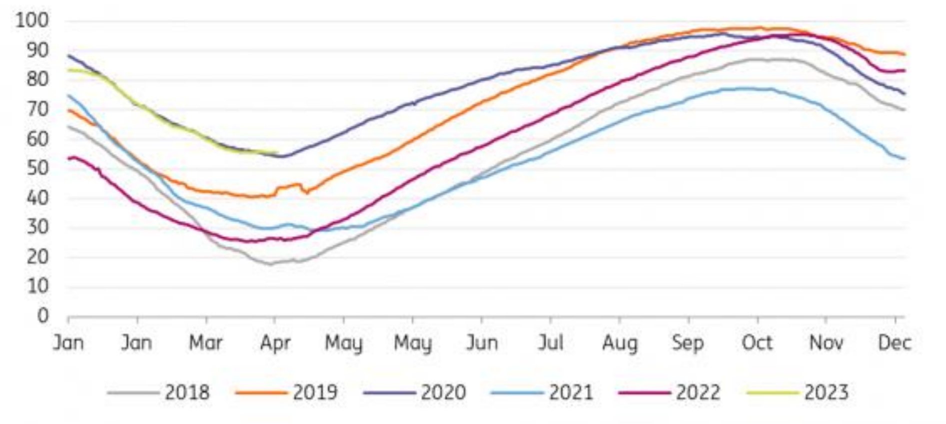
The EU has officially exited the 2022/23 heating season with storage 56% full. This is well above the five-year average of 34% and in fact record levels for the end of winter. We expect the EU to achieve its target of having storage 90% full by 1 November. Given the high storage levels currently, the region will need to see net injections of around 34bcm compared to roughly 67bcm last year. This should be manageable for the region.

Despite the more comfortable gas balance, the EU will need to continue to see demand destruction through 2023. The European Commission recently extended the 15% voluntary demand cut through until the end of March 2024. If the European market was to become extremely tight, this would shift to a mandatory cut. However, demand reductions over the winter have exceeded this. We believe that the EU only needs to see a demand reduction of around 10% from the five-year average from April 2023 onwards.

We now expect TTF to average EUR51/MWh over 2023, having come out of this winter with storage higher than what we were expecting. Meanwhile, significant further downside is likely limited given we are in the coal-to-gas switching range, whilst we still need to see demand destruction through the year (just not as aggressive as seen in recent months).

The key assumptions on the supply side are that remaining Russian daily pipeline flows continue through the year, and that only a partial recovery in Chinese liquefied natural gas (LNG) demand this year leaves adequate LNG supply for Europe. So far, we have not seen a strong recovery from China. LNG imports over the first two months of the year were down 11.9% year-on-year. And at the moment, Asian spot LNG prices are trading at a discount to TTF.

EU gas storage ends winter at record levels (% full)



Source: GIE, ING Research

OPEC+ surprise cuts tighten the oil market

The oil market had a fairly volatile month over March, unable to escape the broader financial market turmoil. This volatility appears as though it will continue into April following a number of OPEC+ members announcing surprise voluntary supply cuts.

A handful of OPEC+ members have announced supply cuts of 1.66m b/d, which will run from May through until the end of 2023. 500k b/d of these cuts are from Russia, which will be an extension of existing cuts that were originally set to end in June. Therefore, real cuts among other producers total around 1.16m b/d. Given that most of these members are producing at or near their current product targets, the actual cuts will be close to the announced cuts.

Clearly, OPEC+ members have not been content with Brent trading in a largely US$70-80/bbl range and want the floor for the market at higher levels. The more modest supply growth from the US would have also likely provided comfort to OPEC+ that it could cut supply and push up prices without the fear of losing a significant amount of market share to US producers.

The announcement to cut supply is a bit of a surprise, given that the market was already expected to tighten significantly over the second half of the year. These additional cuts mean that the market will be even tighter later in the year. As a result, we expect Brent to trade above US$100/bbl over the second half of 2023. We forecast Brent to average US$101/bbl over the second half of the year and US$104/bbl over the fourth quarter.

A harder landing for the US

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Banking stresses mean much tighter lending conditions, which in an environment of rising borrowing costs, soft business sentiment and a rapidly weakening housing market, makes a hard landing for the economy look all the more likely. Inflation will slow even more quickly in this environment, opening the door to interest rate cuts later this year

Wall Street, New York - March 2023

Recession risks mount as credit is curtailed

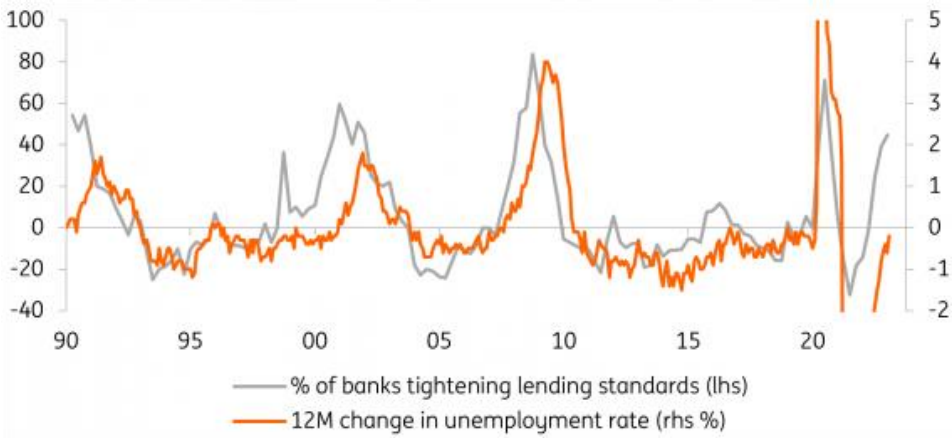
Even before the recent banking turmoil we had been concerned about the possibility of a recession in the US this year. The harder and faster a central bank moves monetary policy into restrictive territory, and this has been the fastest most aggressive period of rate hikes for 40 years, the less control you have over the outcome. We were concerned about economic stresses, but it is the financial stresses revealed by the failure of Signature Bank and Silicon Valley Bank that have come to the fore first.

There are around 4,200 banks in the US and most of them are classified as small – less than $250bn in assets. These "small" banks account for around 43% of all commercial bank lending in the US and are particularly important in the commercial and residential real estate markets. The deposit flight they have experienced in the wake of recent banking failures leaves them with less scope to lend, even if they wanted to. Regulators will be paying much closer attention to what each bank has been up to and with the prospect of much tougher regulations to come, banks will be wanting to tidy up their balances sheets as quickly as possible. We doubt big banks will be able to fill the gap, so credit flow will be heavily disrupted.

Banks stepping back, default risks and student loan angst

The Federal Reserve's Senior Loan Officer's survey had already indicated that banks had become far more cautious in their lending practices through the second half of this year – the orange line in the chart below jumping higher to be on a par with the Global Financial Crisis and the pandemic. This will become more pronounced through the first half of this year and will be a major headwind to economic activity. The chart below shows that when banks step back the economy suffers, with unemployment jumping higher. The most obvious transmission mechanism is struggling firms are more likely to be forced out of business if their banks no longer extend credit to them.

Tighter lending conditions always result in higher unemployment



Source: Macrobond, ING

Adding to our nervousness about the growth outlook is the lack of movement on the government debt ceiling. Failure to agree on a deal to raise this could result in a government shutdown and hundreds of thousands of workers furloughed with a potential technical default in the third quarter. On top of this, the Supreme Court is currently weighing President Biden's plans on student debt forgiveness. Federal student loan payments have been on hold for the past three years and the President had hoped to cancel up to $20,000 in debt for up to 40 million Americans. If the Supreme Court rules against the president, typical monthly payments of $300-400 could restart from September, acting as another major brake on the economy.

A reversal of Fed rate hikes is coming

Yet despite all these negatives, the Federal Reserve seems intent on raising interest rates further with a 25bp hike more likely than not at the May FOMC meeting. Inflation continues to run hot for now, but with job lay-off announcements on the rise and the headwinds for the economy intensifying, the Fed's concerns should gradually recede over the summer. Indeed, the composition of the inflation basket (high shelter and vehicle weighting where prices are coming under downward pressure) and surveys indicating that competitive pressures are making businesses more reluctant to raise prices means inflation will drop below 3% by year-end.

The tightening of lending conditions combined with rising borrowing costs, plunging business sentiment and a rapidly weakening property market mean a hard landing looks increasingly probable. With unemployment likely to rise, wage pressures will be dampened and inflation will slow even more quickly. This should open the door to 100bp of rate cuts in the fourth quarter with the Fed funds rate set to head down to 3% by mid-2024.

UK finished with rate hikes as inflationary pressures ease

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Assuming the encouraging trends on price-setting behaviour persist, we think the Bank of England will opt against a further rate hike in May

Governor of the Bank of England Andrew Bailey arrives at London School of Economics, ahead of a speech - March 2023

Inflation is heading in the right direction

Amid the turmoil in global markets, the Bank of England's March meeting was an exercise in keeping its options open. It hiked by 25bp – its smallest hike for some time – and the Bank's Governor, Andrew Bailey, has since insisted further rate rises are possible should the data require them.

For now, the data that matter have as been pointing in the right direction on inflation. Perhaps most importantly, the official wage growth numbers finally look like they've peaked. The Bank's own Decision Maker Panel survey – which polls CFOs across the UK – has been pointing to less aggressive planned price and wage rises over the coming months. Inflation expectations among both businesses and consumers have begun to ease too.

The official inflation numbers have been more mixed, and core services CPI was higher than the Bank would have liked in February (it rose from 5.6% to 6.4%, by our estimates). But we do expect some gradual improvement here in the months ahead, and we think the recent collapse in wholesale gas prices will alleviate some pressure.

While it's easy to think this is more consequential for goods categories, an official ONS business survey found that 80% of hospitality firms that raised prices in recent months attributed it to higher energy prices, compared to 46% who cited labour costs. With wholesale costs now lower, the same logic probably applies in reverse.

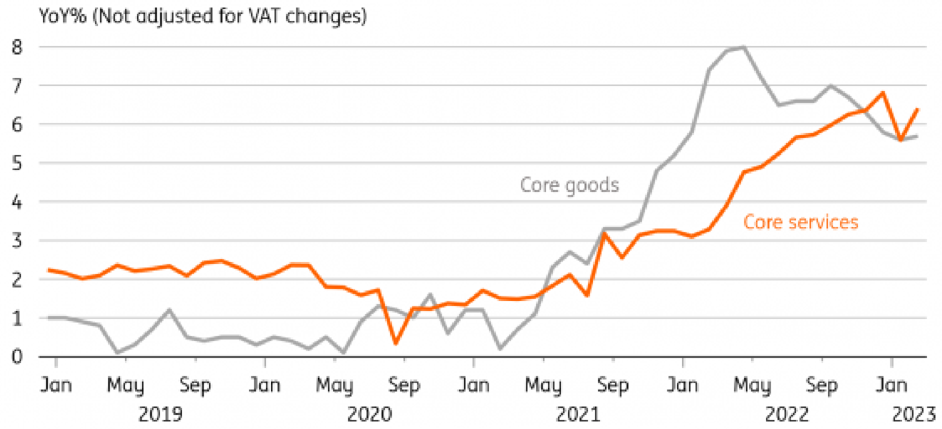
In short, if the recent trends in inflation and wages continue then we think the Bank of England is done with rate hikes.

Even before the latest developments in the banking sector, policymakers had been emphasising that much of the impact of past rate hikes was still to come through, which in part is because 90% of UK mortgages are on fixed-rate products.

Policymakers have effectively set a much lower bar for pausing rate hikes over the coming months.

Core services inflation should begin to ease on lower gas prices

UK core inflation measures



Core services inflation excludes air fares, package holidays and education. Core goods excludes food, energy, alcohol and tobacco. Series vary slightly from BoE estimates, partly due to lack of VAT adjustment Source: Macrobond, ING calculations

Rate cuts may be some way off (banking crisis dependent)

That's not to say the descent in core inflation is going to be rapid. While wage growth might have peaked, the structural issues in the jobs market – long-term sickness being a major example – haven't gone away. Hiring demand is undoubtedly fading, and recent reports of redundancy notices to the government have picked up. But worker shortages are still likely to remain an issue for many businesses given constraints on labour supply.

Barring a material deterioration in the health of the banking sector, this 'sticky' inflation story suggests we shouldn't expect the first BoE rate cut until 2024.

Conflicting forces lead to subdued growth for the eurozone

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While lower natural gas prices continue to act as a tailwind to the eurozone economy, tighter monetary policy is likely to slow down the expansion from the second half of 2023 onwards. That means subpar growth, both in 2023 and 2024. Inflation is past the peak, though stickier core inflation will push the European Central Bank to hike twice more by 25bp a piece

Meeting of the European Council, Brussels, Belgium - 24 Mar 2023

A foggy outlook

Most sentiment indicators in the eurozone continued to improve in the eurozone in March. However, we shouldn't forget that in recent months, confidence indicators have not had the best track record in nowcasting eurozone growth. More importantly, various conflicting forces are impacting the economy, which makes the outlook even more difficult than usual. While much lower energy prices than six months ago are clearly a boon to industry, an inventory overhang and weak orders are at the same time restraining activity. China's reopening might gradually offer some support, but for the time being there is not much pick-up in export orders. Services seem to be benefiting from stronger consumer demand, though the improvement in services sentiment is still more explained by higher expectations than by current business. However, consumer confidence has remained weak and retail sales have hardly picked up so far. At the same time, tighter monetary policy is increasingly acting as a headwind to the expansion. Credit dynamics clearly weakened in February, a trend that might be exacerbated by the recent unrest in the banking sector. Order books in the interest rate-sensitive construction sector weakened for the third month in a row in March, heralding further weakness in building activity. The first quarter might still see a small positive growth figure. The question is, what happens afterwards?

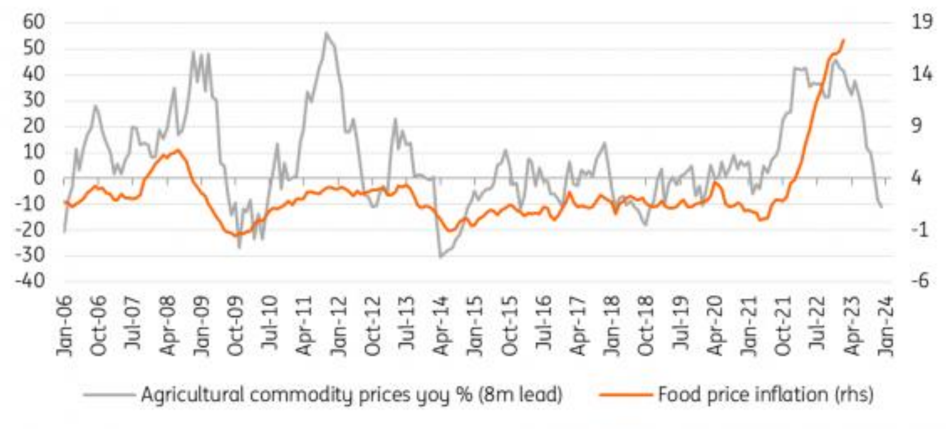
Contracting money growth bodes ill for the economic expansion

Source: Refinitiv, Datastream

Monetary contraction

The optimists will argue that despite the high level of uncertainty, the labour market remains very well supported, with the unemployment rate stabilising at 6.6% in February and consumer labour market expectations improving for the fifth consecutive month in March. This might be due to adverse demographic trends, which could lead to labour hoarding, even in a less buoyant business environment. Whatever the reason, in combination with higher wages and gradually falling inflation, the strong labour market remains supportive for purchasing power and consumption. At the same time, the easing of supply chain pressures should underpin production. This speaks to some acceleration in growth over the course of the year. However, we remain convinced that tighter monetary conditions and the withdrawal of fiscal stimulus will stop this trend in the third quarter. Even though there is a lot of uncertainty about the level of the neutral interest rate in the eurozone, the current level of short rates is in restrictive territory, according to most estimates. The most liquid part of money, M1, which proved to be a good leading indicator in the past, is now showing negative year-on-year growth for the first time since the start of the Monetary Union. Bottom line: we now have a 0.9% GDP growth estimate for the year, on the back of an "OKish" first half, but we continue to see the economy coming close to a standstill by the turn of the year. That would result in only 0.7% growth in 2024, clearly lower than what the ECB is currently pencilling in.

Falling agricultural commodity prices will push down food inflation



Source: Refinitiv, Datastream

Disinflationary forces

Negative energy inflation is now pushing overall inflation down, with the headline figure falling to 6.9% in March. However, core inflation reached a new peak (5.7%) in the same month. Apart from energy, we believe that goods inflation is now also past the peak (with high inventory pricing power coming down), while lower agricultural commodity prices should, with some delay, also start to push down food inflation. Services inflation might prove to be stickier, but even then, we believe that the peak in core inflation has been reached. However, any drop in core inflation will be slow and at 5% in the second quarter, core inflation will still be too high for the ECB. Several ECB board members suggested that a bit more tightening might be necessary, which leaves us comfortable with our call of a 25bp rate hike both in May and June. After that, the deposit rate is likely to remain at 3.5% for a long period of time. Bond yields have been very volatile in the wake of financial market turbulence. We see them fluctuating in a range for most of the year, with slightly higher yields in the coming months, but a modest bond rally starting around the summer months.

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Why short term financial stresses could actually de-stress the ECB in the long run

Peaks in systemic stress generally result in recession and lower inflation down the line, making the work of the European Central Bank easier. So far, we have not seen stress reach worrying levels, meaning that we expect the ECB to continue to hike at the next two meetings

Don't worry too much, Christine Lagarde. Peaks in systemic stress generally result in recession and lower inflation down the line

Following the bankruptcy of Silicon Valley Bank, financial stress spiked globally as concerns about the banking sector emerged. Even though events have not specifically impacted eurozone banks, we have seen financial stress indicators increase in the region. There is no way of telling how this turmoil will end, even though things have calmed since the UBS takeover of Credit Suisse last month, and even though we agree with ECB President Christine Lagarde that eurozone banks are more resilient than during the financial crisis. Back then, the eurozone didn't have a Single Supervision Mechanism or a Single Resolution Mechanism, and liquidity and tier 1 capital positions were much lower than they are today.

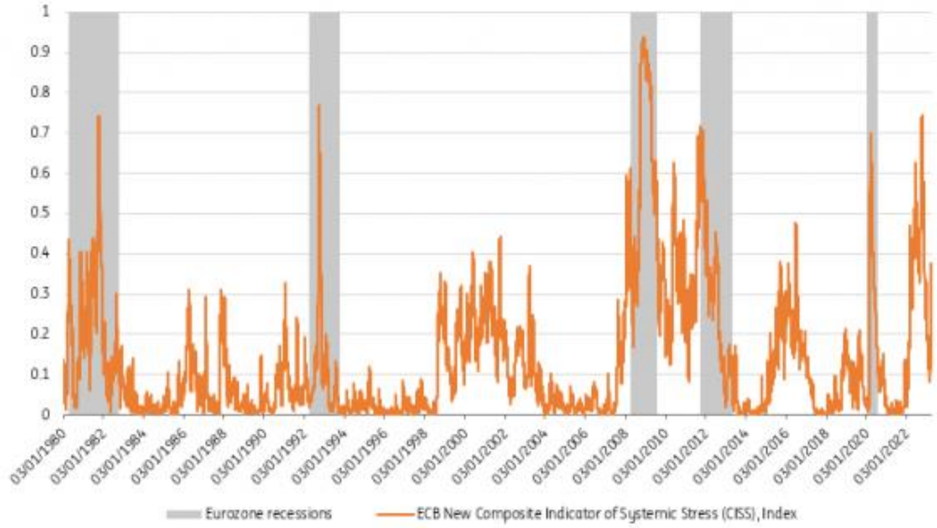
To get a sense of how financial stress events usually impact the economy – even though we're not there yet –let's learn a little bit from history. When you look at previous 'stress events', we find that even though outcomes differ significantly, overall, there's a dampening effect on inflation. This means that if we were to see more elevated stress in the eurozone financial system from now on, the ECB might have to hike less than we previously anticipated.

The ECB's own indicator of financial stress has not reached troublesome levels

The ECB's own Composite Indicator of Systemic Stress (CISS) seems as good as any to examine when the eurozone economy underwent periods of elevated financial stress. The indicator goes back to 1980, so this includes the period of high inflation in the early 80s and the early 90s recession (and with it, the Savings and Loan banking crisis in the US and the Exchange Rate Mechanism crisis in Europe), but also the Global Financial Crisis and the Covid-19 pandemic. This is enough for us to go on.

We take the, somewhat arbitrary, level of 0.5 as the cut-off for a stress event, which has been breached only six times (while worth saying we count the prolonged stress after 2008 as one event). Currently, we see levels between 0.3 and 0.4, a level reached more often and not usually associated with recession.

Systemic stress events usually associate with recession, but current levels fall short (CISS)



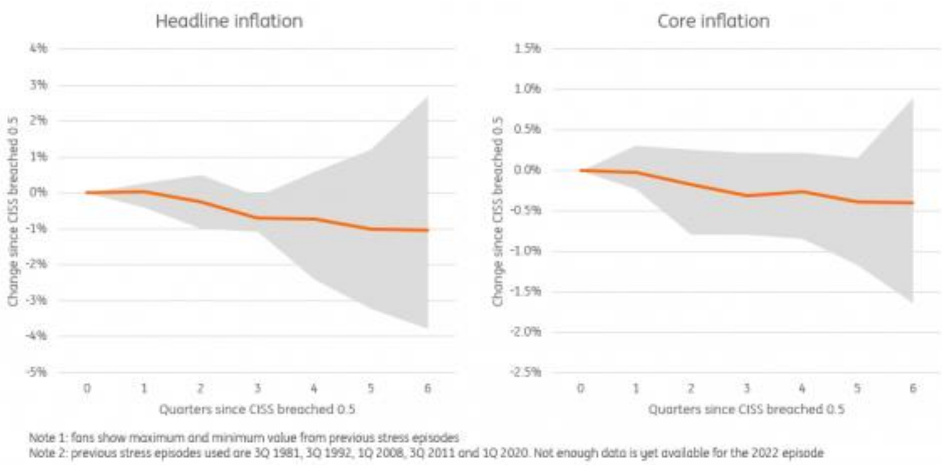
Source: ECB, Macrobond, ING Research

High peaks in systemic stress usually lower inflation

We examined the effect on economic activity, prices, labour markets and interest rates and found that the average response after a few quarters is one of weaker economic activity, slower inflation, higher unemployment and lower interest rates. Indeed, it is quite rare that a stress event is not associated with a recession of some sort.

For inflation, we differentiated between headline and core and found that headline inflation falls much faster after a stress spike than the core rate. This relates to oil prices being quite sensitive to expected economic activity and, therefore, it is mainly the energy component of headline inflation that drops quickly after a stress event. But core inflation also typically falls and was, on average, about 0.5% lower one-and-a-half years after a stress event. The impact is clearly lagged though, and the first half year sees barely any impact on both headline and core inflation.

Inflation on average trends down after a financial stress event



Source: Eurostat, Area-wide Model, ING Research

Don't expect the ECB to stop hiking if things don't worsen

For GDP, stress events are generally bad news. On average, spiking financial stress results in a few quarters of negative growth. Interestingly, the one time that a recession was avoided was the recent spike seen in 2022. The jury could still be out on that one, of course. But the impact of last year's tightening of financial conditions has generally been offset by a strong rebound effect from the pandemic and significant fiscal stimulus.

Overall, the weaker economic environment that results from the financial stress episodes is generally responded to with rate cuts. Looking at the three-month money market rate, we see that it was lower after a year every time, with substantial cuts of about 2ppt on average. In short: rate cuts are generally the response to a stress event. Also, a longer hiking cycle often preludes a financial crisis. As for 10-year yields, we see a decline on average, although more subdued than for short-term interest rates.

So overall, we found that episodes of significant financial stress result in lower headline and core inflation. In short, the ECB's work will be done if financial conditions continue to tighten and economic activity contracts. But then again, last year's spike in stress so far has not brought any of that. There are no guarantees when it comes to economics. As recent turmoil has not caused the CISS to reach the levels associated with recession so far, the ECB is therefore set to stay on track with more rate hikes.

Never waste a good crisis – a profit-price spiral in Germany

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With the largest strikes in Germany in more than three decades this week, fears of a wage-price spiral have gained momentum once again. However, last year's data show clear signs of a profit-price spiral already spreading in the economy

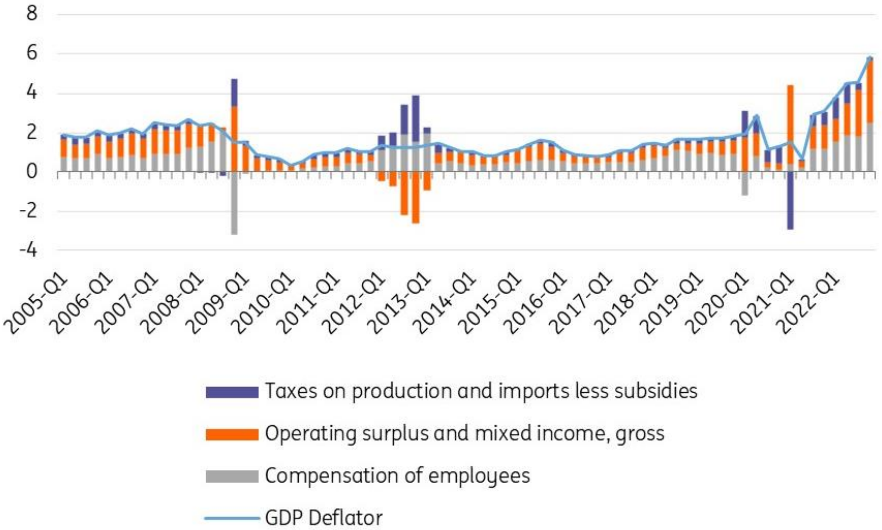
Workers in Germany are striking as they demand better pay to withstand price rises

Over the last two years, many of us will have had our suspicions that the latest price hikes aren't just the result of higher energy and commodity prices, but that some producers, suppliers and service providers have upped their costs, whether to make up for losses during the Covid-19 lockdowns or to increase financial buffers for worse times to come.

In the minutes of the ECB's February meeting, the issue of potential price markups not related to higher costs was raised for the first time. The minutes revealed that "profit growth remained very strong, which suggested that the pass-through of higher costs to higher selling prices remained robust…It was therefore widely stressed that developments in profits and markup warranted constant monitoring and further analysis on an equal footing with developments in wages".

According to a Reuters report in early March, the ECB had discussed analyses showing that profit margins in the eurozone had been rising rather than falling. As a consequence, profits rather than labour costs and taxes accounted for the largest chunk of domestic price pressures in the eurozone since 2021.

GDP deflator (%YoY) and percentage point contributions of labour costs and profits (eurozone)



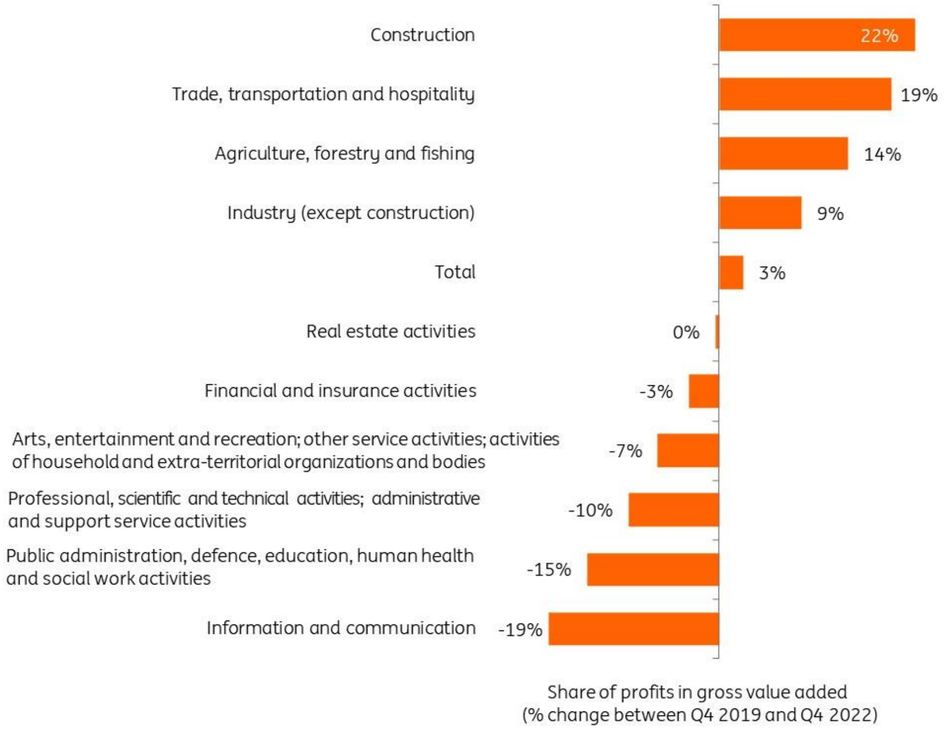
Source: Eurostat; ING Economic & Financial Analysis

Measuring a profit-price spiral in Germany

It's a similar picture in Germany. If companies had simply only passed on higher producer prices, profits would hardly have risen. In practice, however, from the second half of 2021 onward, a significant share of the increase in prices can be explained by higher corporate profits. There is no official corporate profit data, so this is based on gross value added minus the compensation of employees as a proxy, since gross value added results from the compensation of employees and corporate profits and is already indirectly corrected for prices of input goods. At the same time, however, gross value added also includes machinery and investment depreciations, which are hard to be quantified.

Applying the above described methodology shows that the share of profits in total gross value added has increased significantly in some sectors over the last three years. A hint that German companies could fuel inflation further. In the construction sector, for example, the share of profits in gross value added increased by 22% between the fourth quarter of 2019 and the fourth quarter of 2022. In the trade, transport and hospitality sector the figure was 19%, while it rose by 14% in the agriculture sector.

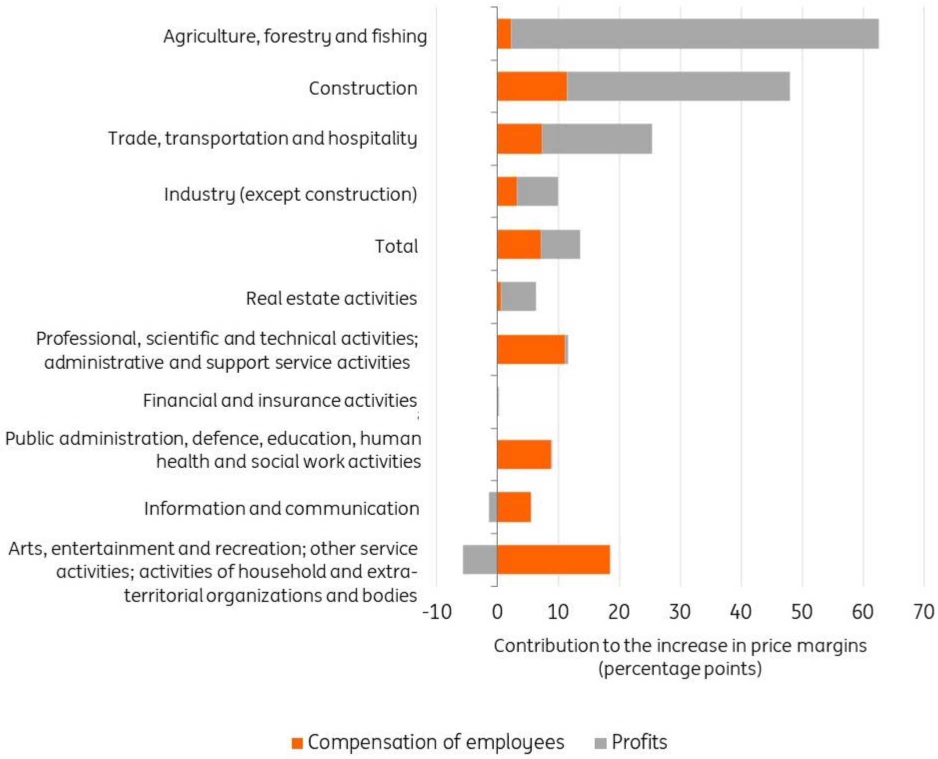
Increase share of profits in gross value added



Source: Destatis, ING Economic & Financial Analysis

Price margins have also increased significantly over the last three years. In particular, companies in the agricultural, construction, retail, transport and hospitality sectors have seen significant increases in price margins. While price margins overall increased by 14% between the fourth quarter of 2019 and the fourth quarter of 2022, they increased by 63% in agriculture, 48% in the construction sector, and by 25% in the trade, transportation, and hospitality sector. By contrast, price margins in financial and insurance activities increased by only 0.2% and in information and communications by 4%.

Contribution of compensation of employees and profits to the increase in price margins



Source: Destatis, ING Economic & Financial Analysis

In many sectors, profits – not the compensation of employees – were the driver behind higher price margins. While the 14% increase in price margins in the overall economy between the fourth quarter of 2019 and the fourth quarter of 2022 can be explained in almost equal parts by an increase in compensation of employees and profits, the rise in price margins in the agricultural sector, the construction sector, and in the trade, transportation, and hospitality sector can be mainly explained by an increase in profits and is thus not due to higher energy and commodity prices.

How to tackle 'greedflation'?

Later today, data will probably show that headline inflation in Germany is falling on the back of lower energy prices. Inflation in Germany and the eurozone, however, is no longer the result of a pure supply-side shock. On the contrary, over the last year, inflation has increasingly become a demand-side issue. It is not only higher energy and commodity prices which are being passed through to consumers, it is also widening profit margins in some sectors which are contributing to inflationary pressures.

Whether it is "greedflation" in the purest meaning of the word or there are other reasons, we cannot know entirely. What is clear, however, is that with both a profit-price and wage-price spiral currently turning heavily, core inflation will remain stubbornly high and the ECB will continue hiking interest rates, at least until the summer before entering a high-for-longer period.

Chinese economy dragged down by external demand

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Domestic demand in China has been strong since the start of the year; the recovery story is on track. But weakening external demand is dragging on economic growth, potentially putting pressure on the labour market

While domestic demand in China is holding up well, weakening external demand has dragged on economic growth

Domestic economic recovery is on track

Retail sales grew 3.5% year-on-year in the first two months of the year, above the -0.2% growth seen for all of 2022. While this figure did not match market expectations, we believe it is a reasonable pace of recovery. Manufacturing PMI was worse than expected in March due to weaker external demand, but non-manufacturing PMI jumped with signs of recovery in the real estate sector.

Strong loan growth in January and February also suggests that companies are actively laying out business expansions domestically after three quiet years due to Covid-19. Loan growth is likely to remain very strong in March, implying that business expansion and infrastructure growth should exceed 5% in 2023.

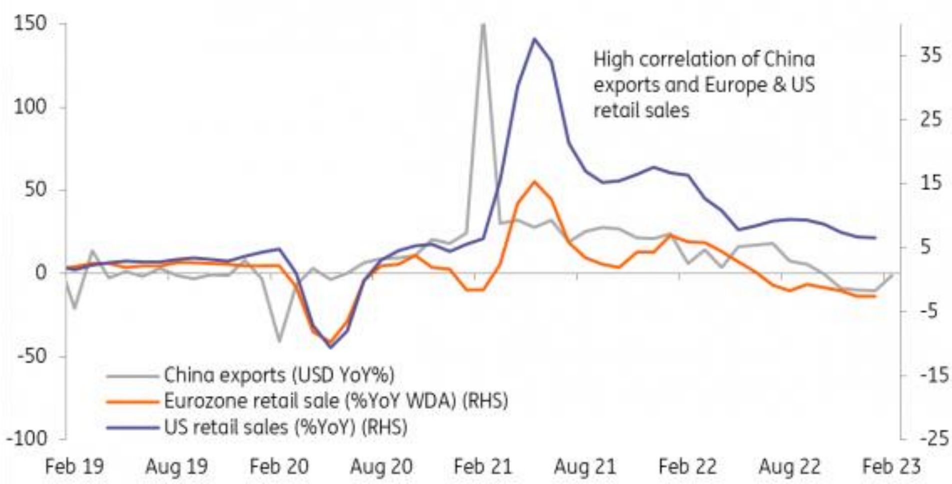
Weakness in external markets may be a factor inhibiting the path to recovery

The bad news is that exports and imports in the first two months of 2023 contracted by 6.8% YoY and 10.2% YoY, respectively. The implication is that external demand is dragging down China's economic growth, which was also shown in PMI data. This should become more pronounced in the second half of the year. This could affect the manufacturing labour market, and therefore possibly consumption.

We do not expect the central bank to ease policy further

The People's Bank of China (PBoC) cut the reserve requirement ratio by 0.25 percentage points at the end of the first quarter and injected a large amount of liquidity into the financial system to smooth out the seasonal interest rate spike. The moderately accommodative monetary policy also serves as a buffer against the possible transmission of global market turmoil to China's financial markets. However, as the local economy is recovering, further easing is unlikely and aggressive easing could fuel unnecessary asset price inflation, which would then trigger the risk of rising consumer prices.

Exports could be a risk to China recovery



Source: CEIC, ING

Revising GDP growth profile

Though we expect the overall GDP growth rate for China in 2023 to be 5%, we are revising lower the GDP growth to 3.8% YoY for the first quarter from 4.5% due to slower external demand reflected in PMI and trade data. As we believe the government could increase fiscal stimulus after the weak GDP report for the first quarter, GDP growth from the second quarter could be faster. As such, we revise GDP growth upward for the second quarter to 6.0% YoY from 5.2%.

Australia's lucky economy

The Australian economy is slowing, but a combination of factors, including a relatively cautious central bank, means that the chances of a soft landing are high

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Sydney's central business district

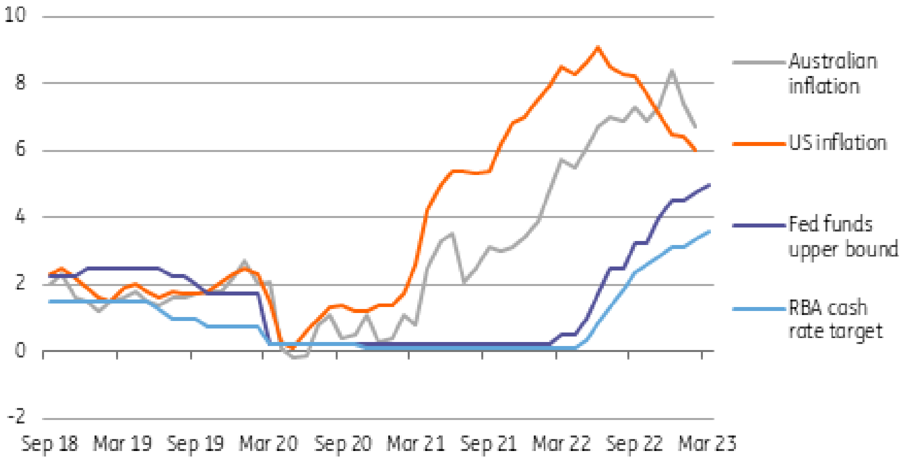
Like the US, but different

In some ways, the Australian economic conjuncture resembles that of the United States. The economy has been slowing, though is still growing at a reasonable pace, with pockets of weakness in the housing market offset by a stubbornly tight labour market.

More than the US, however, China's re-opening, together with a more pragmatic view about Australian imports following some political spats in 2022, should provide greater support to exports, the extraction industries and agriculture. Although to be clear, our expectations for further Chinese demand growth are relatively modest.

Australian inflation is still well above the Reserve Bank of Australia's 2-3% target range, at 6.7% year-on-year in February. But the latest report showed it falling faster than expected. There also seem to be few risks from Australian wage growth rates, which differ from the US in remaining very benign, though the wage growth numbers are still rising slowly.

Inflation and policy rates in Australia and the US (%YoY)



Source: CEIC, ING

The economy is slowing, but gently

With this mixed backdrop, it is not surprising that the message from the RBA has been equally mixed. At its February meeting, the RBA suggested that inflation would not return to its target range until 2025. We believe this statement is meant to reinforce the RBA's inflation-fighting reputation, but it paints far too pessimistic a picture and in contrast, we see inflation coming down close to the target, even if not actually hitting it, by the end of this year.

The March meeting delivered a very different message, with a minor tweak to the text being interpreted as meaning the RBA was within one 25bp hike of peak cash rates. That view looked quite challenged shortly after the meeting, as labour data painted a much more robust image of the labour market, though the latest inflation data put that view back on track again.

Minutes from the previous meeting confirmed that a pause was the RBA's intent and the financial turmoil that has rocked markets, together with a more moderate outlook for rate hikes in the US means that one more hike may well be it for this cycle. And possibly not even that.

We revised up our peak cash rate some months ago to 4.10% after the December inflation spike, but recent events have encouraged us to trim that by one 25bp hike to a peak of 3.85%, still low in both an absolute and relative sense.

The impact of the RBA's tightening so far will continue to come through into the broader economy only gradually, as re-setting mortgages incrementally adjust to the higher cash rates, increasing debt-service costs further, and pandemic-boosted cash balances are drawn down, leading to a moderation of consumer spending. Growth should continue to slowly moderate, and inflation will continue to make progress lower over the coming months.

RBA sounding, but not acting, hawkish

If there is one big difference between Australia and the United States' economic backdrop and policies, it is that the RBA seems to be trying much harder to achieve a soft landing than the US. That is leading to some mixed messaging, with strong rhetoric not entirely backed up by strong actions. However, if we had to choose, we think Australia will pull it off. Inflation will prove to be far less sticky than even the RBA has suggested. And even if 3.85% turns out to be the lower end of where peak rates do eventually settle, the absolute level of rates will still likely be lower than the equivalent Fed funds rate, giving Australia's economy a better chance of a soft landing than the US.

No change at April's Bank of Japan meeting

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We do not expect the Bank of Japan (BoJ) to introduce policy changes at its April meeting, but recent macroeconomic conditions mean the BoJ has paved the way for policy normalisation as early as June

New Bank of Japan governor Kazuo Ueda

The Bank of Japan will hold policy action at next meeting

We expect the Bank of Japan to hold its policy action at its April meeting, as it is just too early for the incoming governor Kazuo Ueda to make policy adjustments and there is no indication at this point that policy normalisation is urgent. At his confirmation hearings in parliament, Ueda also said that he would prioritise communication with financial markets and clarifying his rationale for policy decisions. We believe that he will lay out his views on the current macro perspective and the BoJ's current policy status in April. If pushed, he could hint at the possibility of coordinating forward guidance at the next meeting, but we don't think he will comment on the yield curve policy (YCC) itself, because he believes that any implication on YCC change could diminish the expected policy effect.

Given recent data results and labour market conditions, we believe that the BoJ could change its forward guidance and adjust its YCC policy as early as June. We do not expect another YCC adjustment of the upper limit widening as it did last December, but it will try to anchor the shorter-term tenor 5Y Japanese government bond (JGB) at 0.0% and set the bandwidth tighter than the current +/- 0.5%. Ten-year JGBs already run below 0.5% and recent global financial market uncertainties will likely support the 10Y JGB to stay below the current limit for the time being, thus shortening the YCC would be more effective to move towards policy normalisation. We still expect that the first rate hike will come only in 2024.

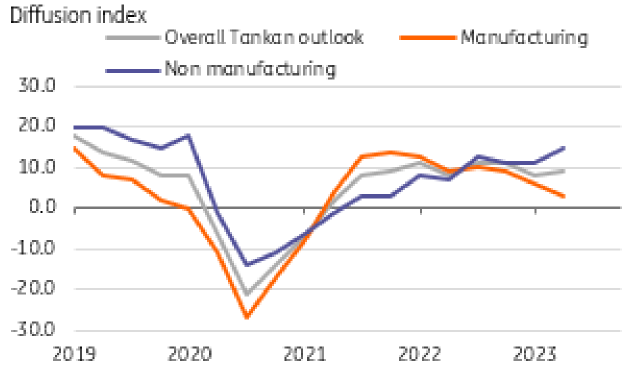
Macro conditions signal Japan's recovery

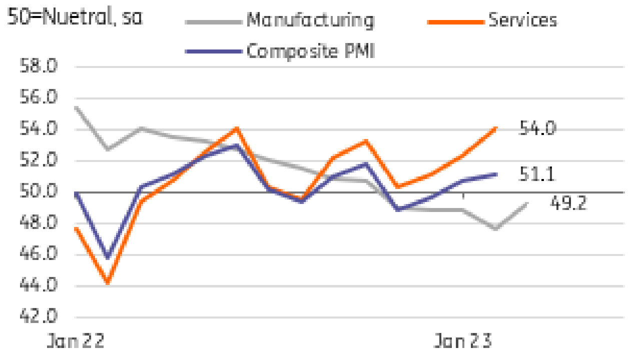
Based on various data releases, we believe that the Japanese economy is on track for recovery. Although recent positive service sector data contrasted with sluggish manufacturing activity, the service sector makes up a larger share of the economy, so overall growth conditions will remain positive.

Industrial production and retail sales data improved between the fourth quarter of last year and the first quarter of 2023, and forward-looking PMI and Tankan survey data provide a positive outlook for the current quarter. Both surveys foresee that the service sector will outperform manufacturing, which is a reasonable view as global demand conditions are expected to deteriorate, while Japan is expected to enjoy the reopening boost from both domestic and overseas travellers.

For inflation, Tokyo CPI, a leading indicator of nationwide inflation, continued to slow in March thanks to the government's energy subsidy programme. But inflationary pressures seem to be expanding as other prices excluding utilities gradually rise. We believe that the second-round effect of previous high energy prices still remains while the reopening of the economy is partially adding to demand-side pressures. As the BoJ looks for demand-driven inflation, this is a good sign that inflation will stay at a sustained level.

Services will lead Japan's recovery





Source: CEIC

Wage growth is expected to beat the BoJ's expectations this year

The labour union's biggest wage increase in decades has recently sparked market speculation about the BoJ's policy normalisation. According to the news media, key labour unions and their employers have tentatively agreed to raise overall wages by 3.8%, the largest gain since 1993, with a 2.33% increase in the base wage. In addition, several large companies have announced plans for a higher-than-usual pay increase. However, SMEs won't be able to keep up with this trend, so the final wage growth should be lower than current estimates. But, so far, the results have been higher than the 3% sustained wage growth suggested by the BoJ, which could support the central bank's policy normalisation in the coming months.

Inflation is falling in the CEE region, but it's too early for monetary easing

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The slowdown in inflation has begun across the region, while most countries in Central and Eastern Europe are already in a technical recession. However, the labour market remains strong and wage growth risks making inflation stickier for the rest of the year. Overall, we still see no room for monetary easing

Poland sees highest inflation in 26 years. March 2023, Warsaw, Poland

Poland: Eyeing pace of disinflation

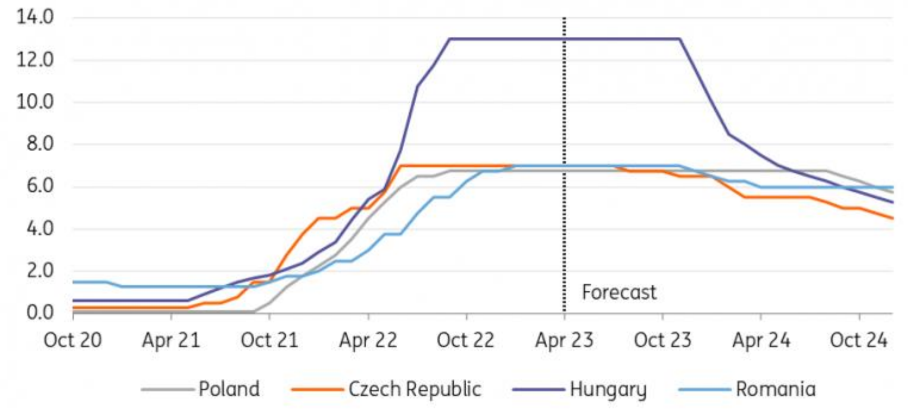
March brought about the beginning of the slide in CPI but the picture is rather like a half-full but half-empty story. On the one hand, headline inflation moderated from a 26-year peak at 18.4% year-on-year in February to 16.2% YoY in March, likely marking the beginning of a downward trend. On the other hand, momentum remained strong (1.1% month-on-month), food price growth remained robust (2.3% MoM) and the decline in annual inflation was mainly linked to a high reference base from energy prices. Most importantly, core inflation rose further to 12.3% YoY from 12.0% YoY in February. We think CPI should head towards single-digit levels in late 2023, but 'sticky' core inflation is unlikely to allow the Monetary Policy Council (MPC) to start cutting rates this year. Even MPC doves have recently gone against market expectations for cuts in 2023.

We downgrade our 2023 GDP growth forecast to 0.5% YoY from 1.0% YoY. Stubbornly high inflation has hit the real disposable income of households and dampened private consumption. Declining retail sales are accompanied by falling industrial output. The decline in annual GDP in the first quarter had been broadly expected for some time, but new downside risks to the global outlook (a possible US credit crunch) along with unfavourable trends in consumption have prompted us to revise our annual GDP forecast for 2023.

Economic policies are cautious. So far the government has offered no heavy pre-election promises, while the central bank hints at no prompt policy easing. We shall see if this holds in the months to come. In the pre-election period we have seen some competition for social grants, but so far have been rather limited in scale. The final proposals should be released in June-July, ie, ahead of the summer holidays and general elections in October.

Financial stability woes (especially in the US) are the elephant in the room for financial market developments now. With Europe arguably in a better position than the US due to more stringent regulations and financial oversight, European currencies (including CEE currencies) should benefit and a higher EUR/USD should support CEE FX. We see gains for the Czech koruna and Hungarian forint while Poland's zloty remains a laggard. EUR/PLN is expected to trade close to 4.76 in April. Curve steepening seems the most probable scenario for April. Rhetoric from the National Bank of Poland after the March decision may be not able to trim expectations for a prompt monetary easing, given poor domestic data in the first half of 2023.

Key rate forecast in the CEE region



Source: Refinitiv, ING

Czech Republic: Economy still in mild recession, central bank remains hawkish on inflation

Leading indicators support the view that the Czech economy remains in a mild recession but with slightly improving sentiment among entrepreneurs and stable sentiment among consumers. Households lost purchasing power – 1.2% quarter-on-quarter, 6.3% YoY in the fourth quarter of 2022. Hence the chance for a recovery of private consumption remains limited. This is in line with our expectation that private consumption will slow the economic recovery in the first quarter of 2023. At the same time, companies reported 46.9% profit growth, up 2.4% YoY. This suggests the inflationary environment is still quite strong. We expect inflation to moderate to 16.8% YoY in March, thanks to the gentle decline in food and fuel prices, while core inflation moderated gently as well. Still, those are levels that are unlikely to push the Czech National Bank (CNB) to even think about rate cuts. We still expect the first debate about loosening monetary policy to be put on the table in August, but the first reduction of interest rates is more likely to materialise in the autumn.

The Czech koruna is strongly supported by the CNB's hawkish tone. Given that the CNB is unlikely to hike interest rates, FX remains its main weapon. The central bank has confirmed that it is ready to intervene if needed, but current levels are far from where the CNB was last active. The Czech koruna visibly welcomed the CNB's hawkish tone and moved below 23.60 EUR/CZK for the first time since the sell-off in global markets two weeks ago. On the other hand, the central bank's statement is clearly supportive of the koruna and implies that the currency is safe in the event of a global sell-off. Moreover, with the prospect of higher rates for a longer period of time, a solid FX carry is also certain. Overall, the koruna offers decent risk/reward and we expect it to strengthen further.

Hungary: Peaks and troughs

The first quarter of 2023 was about peaks and troughs for the Hungarian economy. Although we do not have the full slate of hard data for proof, there is plenty of circumstantial evidence. We expect yet another drop in real GDP on a quarterly basis in the first quarter, the third decline in a row. The main reason behind this is purchasing power, which is plunging in response to sky-high inflation, causing the deepest real wage drop since the 2008-09 crisis. However, we believe that the technical recession will be cut short due to new export capacities helping growth from the second quarter. Then a more marked rebound comes on falling inflation, improving purchasing power and better investment activity on freed-up access to EU funds in the second half of 2023. Overall, we see GDP growth of 0.7% this year.

Touching upon inflation, the peak is behind us, and we see a gradual decline in the coming months, followed by speedy disinflation on energy, fuel and food base effects in the second half of the year. We forecast a single-digit inflation print in December with an 18.8% average price increase in 2023. In the meantime, the central bank is patiently waiting for a number of risks to alleviate. Thus, we believe that a dovish pivot can happen in June at the earliest with 50-100bp monthly step sizes and an 11.5% base rate by the year-end. The pivot will be helped by a stronger forint and structural improvements – lowering inflation, better growth prospects, the EU funds deal and a markedly narrowing current account deficit (from 8.1% to 4.5% of GDP). Along with the HUF, we also see strong potential for Hungarian government bonds helped by tighter fiscal policy complementing the other structural factors. For more details, check our latest Monitoring Hungary.

Romania: Disinflationary trend to become more pronounced

The economy advanced by a robust 4.8% in 2022, with a welcome rebalancing in growth drivers from consumption (still the main driver) towards investments. The availability of the high-frequency data for 2023 suggests that industrial production remains rather deep in negative territory, while retail sales and construction data have been much better. We maintain our 2.5% GDP growth estimate for 2023, with a small but positive quarterly growth of 0.2% in the first quarter.

On the inflation front, headline inflation for the first two months of 2023 may have printed a bit above expectations, but nevertheless, we believe that beginning with April inflation (currently forecast by us at around 11.5%), a clearer disinflationary trend will take shape. We've had a long-standing 2023 year-end forecast of 7.4%, which we maintain. The recent spike in oil prices might change the story somewhat, but when looking at the bigger picture we believe that markets could still be surprised by lower inflation readings in April and even in August-September when the headline should finally dip into single-digits.

We believe the National Bank of Romania (NBR) will stay on course and keep the key rate unchanged at 7.00% for the rest of 2023. The liquidity surplus in the money market (which we estimate at around RON20bn for March) is likely an issue that the NBR will address either through permanent means (i.e. FX intervention) or if needed through open market operations (such as deposit auctions). Given the recent developments in the FX market, we believe that the preference is for the first option. This could lead to a mild reversal in the current downside trend in market rates and a repositioning of the curve up to one-year closer to the policy rate.

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FX: Timing the dollar sell-off is now the key challenge

Fast support for the US banking system has seen the dollar turn lower from distressed highs as investors have switched to focusing on easing from the Federal Reserve. Conviction levels are rising that the dollar will sell off – but timing remains key as ever

Dollar to exit this banking mess to the downside

The 2008 Global Financial Crisis and the more recent Covid-19 pandemic provide a good playbook for how the dollar performs in a crisis. First, it lurches to the upside on the confidence crisis in inter-bank funding. No one gets fired for being long dollar balances in a financial crisis. But once authorities introduce measures to improve liquidity – be it new schemes or re-introducing old ones – the dollar tends to sell off on the assumption that market functioning has been solved and that the Fed can cut.

The above roughly explained how the dollar performed in March, but the question now is whether the dollar can leave the banking crisis behind and focus on the forthcoming Fed easing cycle. Our forecast profile assumes that conditions will remain tense in the second quarter and that the Fed still wants to tighten. Here we expect EUR/USD to continue bouncing around the 1.05-1.10 range. Into the second half of the year, however, the deceleration in US price and activity data – plus some Fed acknowledgment of these broad trends – should see the dollar break cleanly lower. We continue to target EUR/USD at 1.15 for year-end.

The path to a weaker dollar will be a bumpy one and could easily get blown off course should banking stress return or other challenges emerge – such as a US debt ceiling crisis in the third quarter. Our preference would be for renewed Japanese yen outperformance on the crosses – especially were the Bank of Japan to further adjust its Yield Curve Control policy at its June meeting. Elsewhere, we remain suspicious of sterling's outperformance in March and expect it to come under pressure again – EUR/GBP to 0.90 – as the Bank of England moves closer to a formal pause.

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Rates: the discount for angst deepens in rates markets

Curve inversion equals pain. The manifestation of that pain is typically a recession, and the antidote is (eventual) rate cuts. A lot of this is now being discounted. Banking sector pain has eased the inversion but only as more rate cuts are discounted. The market is looking through inflation risks and toward recessionary ones

Financial information ticker regarding Credit Suisse in Boston, USA - 16 Mar 2023

Markets now paying more attention to recession risks than to headline inflation

A journey lower for market rates is the structural view in the coming months. There are too many headwinds out there, and they culminate in a significant dampening effect on activity. The banking sector, in particular, has (significantly) tightened lending standards. And when lending standards tighten, economies typically respond in a negative fashion. For market rates, this effect is dominating the directional debate. The thinking is that the supply side may have created the inflation monster, but a big calming on the demand side can tame it in the coming few quarters.

> *"The market sees inflation risk coming from higher energy prices but also sees such risks as far lower as the economies go into recession"*

OPEC+'s production cuts add to upward pressure on inflation, particularly headline inflation. And underlying inflation can be affected as higher energy prices mean higher input prices across the board. The impact of the announcement was big. For example, the US 2yr inflation break-even rate shot up from 2.65% to 2.85%, an impactful 20bp rise. But that was practically reversed as soon as the PMI prints were reported in the low-to-mid-40s (recession levels). That's telling us that the market sees the inflation risk coming from higher energy prices, but also sees that such price risks are far lower if the economy goes into recession.

Eurozone break-even inflation up to almost 4% in coming year, with the ECB at 3.5%

A similar reaction function was seen on European inflation break-evens from the OPEC+ production cut announcement, as the 1yr breakeven rose from 3.8% to 3.95%. But the fallback was much more muted, with the 1yr break-even easing down to 3.9%. Break-even inflation rates further out the curve are lower, in the 2.5% area or a tad higher in the 7-10yr segment. In the US, break-evens are in the 2.3% area. So what we see is a more subdued long-term inflation discount longer term than what we would see over the next couple of years.

That in turn fits with the market discount for official rates. As it is, the liquid part of the Fed funds strip sees the funds rate at 3.5% by mid-2024, compared with just short of 5% currently (effective funds rate). So significant cuts are discounted. In the eurozone, the market essentially discounts that any hikes delivered from here on out are reversed by mid-2024, which also leaves us at around 3.5% for the European Central Bank's Refi rate. That combination implies an effective convergence between the Fed funds rate and the Refi rate, and by implication suggests more pain for the US economy than for the eurozone in 2023.

The new threat to the US economy is coming from the hidden pain in the regional banking sector. The eurozone version of this is far less prevalent. But the post-pandemic commercial real estate risk is one that needs to be negotiated on both sides of the Atlantic. The degree of inversion of yield curves tells a similar story – it's deeper in the US, and in fact was much deeper before the rate cut discount began to really build. Curve inversion equals pain. The manifestation of that pain is typically a recession, and the antidote to that is (eventual) rate cuts. A lot of this is now being discounted. Ahead, economies go into recession. The inflation discount eases. Rate cuts get delivered. Treasuries outperform Bunds. US market rates converge on 3% (or slightly below), and the Fed gets there eventually too; and the ECB much later.

ING global forecasts

	2022					2023					2024					2025				
	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY	1Q24	2Q24	3Q24	4Q24	FY	1Q25	2Q25	3Q25	4Q25	FY
United States																				
GDP (% QoQ, ann)	-1.6	-0.6	3.2	2.7	2.1	1.5	0	-1.8	-2.1	0.8	-0.5	1.7	2.3	2.2	0	2.3	2.4	2.2	2.0	2.1
CPI headline (% YoY)	8.0	8.6	8.3	7.1	8.0	5.9	4.3	3.5	2.9	4.1	2.2	2	1.8	1.9	1.9	2.0	2.2	2.2	2.0	2.1
Federal funds (%, eop)	0.50	1.75	3.25	4.50	4.50	5.00	5.25	5.25	4.25	4.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3-month interest rate (%, eop)	0.65	2.1	3.5	4.6	4.6	4.9	5.2	5.2	4.2	4.2	3.2	3	3	3	3	3	3	3	3	3
10-year interest rate (%, eop)	2.30	3.00	3.80	3.88	3.88	3.50	3.50	3.25	3.00	3.00	3.00	3.00	3.25	3.75	3.75	3.75	3.75	4.00	4.00	4.00
Fiscal balance (% of GDP)					-4.2					-5.0					-5.3					-4.2
Gross public debt / GDP					99.8					100.2					102.0					105.7
Eurozone																				
GDP (% QoQ, ann)	2.6	3.4	1.2	0.4	3.5	0.6	1.2	0.9	0.4	0.9	0.4	0.7	1.0	1.2	0.7	1.6	1.6	1.4	1.4	1.3
CPI headline (% YoY)	6.0	8.0	9.3	10.0	8.3	8.0	5.8	4.5	3.9	5.6	3.2	3.1	2.3	1.7	2.6	1.9	2.0	2.1	2.1	2.0
Refi minimum bid rate (%, eop)	0.00	0.00	1.25	2.50	2.50	3.50	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.50	3.50	3.00	3.00	3.00	3.00	3.00
3-month interest rate (%, eop)	-0.45	-0.35	1.17	2.13	2.13	3.00	3.50	3.50	3.50	3.50	3.40	3.40	3.20	3.10	3.10	2.70	2.75	2.80	2.85	2.85
10-year interest rate (%, eop)	0.60	1.40	2.10	2.56	2.56	2.30	2.50	2.30	2.10	2.10	2.10	2.20	2.30	2.40	2.40	2.40	2.40	2.50	2.60	2.60
Fiscal balance (% of GDP)					-4.1					-4.3					-3.3					-3.1
Gross public debt/GDP					97.3					95.3					93.7					93.9
Japan																				
GDP (% QoQ, ann)	-1.8	4.7	-1.1	0.1	1.0	1.6	1.6	1.2	0.8	1.1	0.8	0.8	1.2	1.2	1.0	1.2	1.2	1.2	1.2	1.2
CPI headline (% YoY)	0.9	2.4	2.9	3.8	2.5	3.6	2.7	2.2	1.4	2.5	1.3	1.6	1.7	2	1.7	2.1	2.1	2	1.8	2
Int Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50	0.50	0.50
3-month interest rate (%, eop)	0.00	-0.03	-0.04	-0.02	-0.02	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.05	0.20	0.00	0.30	0.50	0.50	0.50	0.50
10-year interest rate (%, eop)	0.25	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25
Fiscal balance (% of GDP)					-7					-8					-7					-6
Gross public debt/GDP					270.0					275.0					275.0					270.0
China																				
GDP (% YoY)	4.8	0.4	3.9	2.9	3.0	3.8	6.0	4.8	5.4	5.0	5.5	5.3	5.0	5.5	5.3	4.7	5.4	5.2	5.2	5.1
CPI headline (% YoY)	1.1	2.3	2.5	2.1	2.0	1.5	2.3	2.5	2.5	2.2	2.2	2.2	2.3	2.5	2.3	2.5	2.8	3.1	3.4	3.0
PBOC 7-day reverse repo rate (% eop)	2.10	2.10	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.10	2.20	2.20	2.30	2.40	2.50	2.60	2.60
3M SHIBOR (% eop)	2.38	2.20	1.65	2.20	2.20	2.45	2.40	2.40	2.50	2.50	2.55	2.60	2.65	2.70	2.70	2.75	2.80	2.85	2.95	2.95
10-year T-bond yield (%, eop)	2.80	2.75	2.75	2.95	2.95	2.87	3	3.15	3.2	3.20	3.35	3.50	3.65	3.80	3.80	3.90	4.00	4.15	4.25	4.25
Fiscal balance (% of GDP)					-8.0					-8.0					-6					-4
Public debt (% of GDP), incl. local govt.					129.0					131.0					132.0					129.0
UK																				
GDP (% QoQ, ann)	1.8	0.4	-0.7	0.1	4.0	-0.4	-0.8	0.3	0.6	-0.2	0.9	1.2	1.4	1.4	0.8	1.6	1.6	1.7	1.7	1.5
CPI headline (% YoY)	6.2	9.2	10.0	10.8	9.0	10.1	7.1	4.6	2.7	6.2	2.0	1.5	2.3	1.9	1.9	2.0	1.7	1.8	2.1	1.9
BoE official bank rate (%, eop)	0.75	1.25	2.25	3.50	3.50	4.25	4.25	4.25	4.25	4.25	4.25	3.75	3.25	2.75	2.75	2.50	2.50	2.50	2.50	2.50
3-month interest rate (%, eop)	2.70	2.70	3.35	3.75	3.75	4.30	4.20	4.20	4.20	4.20	4.05	3.55	3.05	2.60	2.60	2.45	2.45	2.45	2.45	2.45
10-year interest rate (%, eop)	2.50	2.25	4.10	3.20	3.20	3.50	3.50	3.10	2.80	2.80	2.80	2.80	2.90	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Fiscal balance (% of GDP)					4.0					5.0					3.0					2.5
Gross public debt/GDP					110.6					103.0					102.0					99.0
EUR/USD (eop)	1.11	1.05	0.97	1.02	1.02	1.08	1.10	1.12	1.15	1.15	1.15	1.18	1.18	1.15	1.15	1.15	1.15	1.15	1.15	1.15
USD/JPY (eop)	122	132	145	138	138	133	130	125	120	120	118	115	115	115	115	115	115	115	115	115
USD/CNY (eop)	6.34	6.69	7.11	7.22	7.22	6.9	6.80	6.70	6.50	6.50	6.45	6.35	6.3	6.4	6.4	6.5	6.3	6.1	6.2	6.20
EUR/GBP (eop)	0.84	0.86	0.88	0.87	0.87	0.88	0.89	0.89	0.9	0.90	0.90	0.90	0.89	0.88	0.88	0.88	0.88	0.88	0.88	0.88
ICE Brent -US$/bbl (average)	98	112	98	89	99	82	86	98	104	93	98	90	88	83	90	73	75	78	75	75
Dutch TTF - EUR/MWh (avg)	101	101	205	124	133	53	47	45	60	51	65	52	45	50	53	60	50	40	50	50

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates
Source: ING forecasts

Three scenarios for markets and the economy

Scenario #1 (base case): Banking crisis eases but prompts central bank reality check

Banking sector
Economic slowdown reflects negatively on bank earnings and capital. Deposit flows stabilise, supporting liquidity positions of smaller lenders. As financial market volatility eases somewhat, bond spreads stabilise but at higher levels to reflect higher bank risk.

Impact on corporates
Higher policy interest rates find their way to the real economy and cyclically slow down bank lending, and consequently corporate investment.

Economic Impact
Tighter lending standards and already-weak business confidence lead to US recession through the middle of 2023. Unemployment rises. Europe narrowly avoids recession but the rebound is slow.

Wider market impact
Downward pressure on market rates dominates, with a tendency for curves to re-steepen, and for EU rates to converge on US ones. Some capital flows from EU and US markets.

Central banks
Federal Reserve hikes in May, but cuts rates by 100bp by year-end. ECB hikes by 25bp in May and June but signals no cuts in 2023.

Central bank – peak rate

5.25%	4.0%
Fed	ECB

Markets: End-2023 forecasts

1.15	3.00%
EUR/USD	US 10-year

Scenario #2: Crisis eases quickly and central banks re-focus on inflation as medium-term risks build

Banking sector
The improving market sentiment supports volumes as lending and other activity picks up. Central bank rate hikes are reflected in higher revenues, outpacing the increase in credit costs. Bank funding markets are wide open and secondary bank bond spreads narrow.

Impact on corporates
Corporates can further tap financial markets for financing, supporting investments in energy transition, digitalisation and infrastructure.

Economic Impact
The US avoids recession, aided by resilient corporate balance sheets. Core inflation takes longer to fall as a result. The eurozone is more resilient than expected and inflation becomes a real demand-side problem.

Wider market impact
The upside pressure for market rates re-asserts itself, with curves re-inverting. Convergence of EU to US rates, but less dramatic.

Central banks
Policy rates go another leg higher, and no major central bank cuts rates in 2023. But a deeper recession as result of monetary tightening prompts widespread easing in the second half of 2024.

Central bank – peak rate

5.75%	4.5%
Fed	ECB

Markets: End-2023 forecasts

1.10	3.25%
EUR/USD	US 10-year

Scenario #3: Deepening crisis prompts recession and earlier rate cuts

Banking sector
Banks hit the breaks in lending and lower volumes pressure revenue development. Weak economy pushes up credit costs. Bank earnings and capital ratios take a dive. Bank funding markets face problems and spreads are pushed wider.

Impact on corporates
Bank lending channel is increasingly clogged, first affecting SMEs in the US but also Europe. Fully-fledged credit crunch and market uncertainty outweigh any additional market funding for corporates.

Economic Impact
A sharp tightening in credit conditions results in a swift rise in unemployment across the developed world. Recession ensues, helping to bring inflation back to target more quickly.

Wider market impact
Market rates shoot to the downside and credit spreads widen as a deep recession elevates default risk significantly. Rates correlate lower. Massive capital flows from EU and US markets.

Central banks
Rate hike plans in May/June are mothballed. Rate cuts in US and Europe come before year-end to first restore financial stability and then fight recession.

Central bank – peak rate

5.0%	3.5%
Fed	ECB

Markets: End-2023 forecasts

1.00	2.50%
EUR/USD	US 10-year

Source: ING

April 2023 - Scenario forecasts

United States

Real GDP (QoQ ann%)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	2.3	0.7	0.9	1.7	1.8	1.9	1.7	1.6	1.8	1.6
Base case	1.5	0.0	-1.8	-2.1	0.8	-0.5	1.7	2.3	2.2	0.0
Negative scenario	0.0	-1.8	-3.1	-2.4	0.0	-1.6	0.5	1.9	2.0	-0.9

Inflation (YoY%)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	5.9	4.6	4.2	3.7	4.6	2.9	2.7	1.4	1.2	1.9
Base case	5.9	4.3	3.5	2.9	4.1	2.2	2.0	1.8	1.9	1.9
Negative scenario	5.8	3.9	2.8	1.8	3.6	1.1	0.9	1.3	1.7	1.2

Fed Funds Rate (%, eop)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	5.00	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50	3.50
Base case	5.00	5.25	5.25	4.50	4.50	4.00	3.50	3.00	3.00	3.00
Negative scenario	5.00	4.50	2.50	1.00	1.00	1.00	1.00	1.00	1.25	1.25

Eurozone

Real GDP (QoQ ann%)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	0.8	2.5	1.9	0.5	1.3	0.1	-0.6	-0.7	1.6	0.4
Base case	0.6	1.2	0.9	0.3	0.9	0.4	0.7	1.0	1.2	0.7
Negative scenario	0.0	-0.9	-2.1	-1.6	-0.2	0.3	1.3	1.4	1.8	0.0

Inflation (YoY%)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	8.0	6.0	5.2	4.7	6.0	3.0	2.8	2.0	1.8	2.4
Base case	8.0	5.8	4.5	3.9	5.6	3.2	3.1	2.3	1.7	2.6
Negative scenario	8.0	5.5	3.8	2.8	5.0	2.0	1.6	1.7	1.8	1.8

ECB Main Refi Rate (%, eop)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	3.50	4.50	4.50	4.50	4.50	4.50	4.50	4.00	3.25	3.25
Base case	3.50	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.50	3.50
Negative scenario	3.50	3.50	3.00	2.50	2.50	2.00	2.00	2.00	2.00	2.00

China

Real GDP (YoY%)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	4.7	8	6	7	6.425	5.7	5.5	6.1	5.6	5.7
Base case	3.8	6.0	4.8	5.4	5.0	5.5	5.3	5.0	5.5	5.3
Negative scenario	3.0	5.3	5.0	4.6	4.5	5.3	5.0	5.2	5.0	5.1

Inflation (YoY%)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	2.2	2.7	2.9	3	2.7	2.1	2.1	2.2	2.4	2.2
Base case	1.53	2.3	2.5	2.4	2.2	2.2	2.2	2.3	2.5	2.3
Negative scenario	2.3	2.6	2.5	2.3	2.4	2.4	2.5	2.5	2.7	2.5

7-day reverse repo (%, eop)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.10	2.20	2.20
Base case	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.10	2.20	2.20
Negative scenario	2.00	2.05	2.05	2.10	2.10	2.10	2.15	2.20	2.35	2.35

Energy (avg of period)

Brent crude (USD/bbl)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	82	75	73	70	75	70	73	71	67	70
Base case	82	86	98	104	93	98	90	88	83	90
Negative scenario	82	100	115	120	104	105	96	94	88	96

Dutch TTF (EUR/MWh)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	53	38	36	46	43	45	40	34	38	39
Base case	53	47	45	60	51	65	52	45	50	53
Negative scenario	53	61	90	120	81	125	95	80	95	99

Markets

EUR/USD (eop)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	1.08	1.05	1.08	1.10	1.10	1.12	1.12	1.15	1.15	1.15
Base case	1.08	1.10	1.12	1.15	1.15	1.15	1.18	1.18	1.15	1.15
Negative scenario	1.08	1.05	1.03	1.00	1.00	1.03	1.05	1.08	1.10	1.10

US 10Y (eop)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24	FY24
Positive scenario	3.50	3.75	3.75	3.50	3.50	3.25	3.25	3.50	3.75	3.75
Base case	3.50	3.50	3.20	3.00	3.00	3.00	3.00	3.25	3.75	3.75
Negative scenario	3.50	3.00	2.00	2.00	2.00	2.00	2.00	2.25	2.50	2.50

All forecasts are average of the period unless marked 'eop' (end of period)
Source: ING

GDP forecasts

Developed Markets (QoQ% annualised growth)	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2025F
US	1.5	0.0	-1.8	-2.1	0.8	0.0	2.1
Japan	1.6	1.6	1.2	0.8	1.1	1.0	1.2
Germany	-1.2	1.1	0.7	-1.1	-0.1	0.2	1.6
France	0.4	0.8	0.8	0.4	0.7	0.7	1.3
UK	-0.4	-0.8	0.3	0.6	-0.2	0.8	1.5
Italy	0.4	0.9	1.3	0.8	0.8	1.0	1.1
Canada	1.5	0.0	-1.0	-0.8	0.7	0.4	2.2
Australia	0.4	0.3	0.3	0.5	1.8	1.9	3.1
Eurozone	0.6	1.2	0.9	0.4	0.90	0.7	1.3
Austria	-0.4	0.8	0.8	0.4	0.70	0.7	1.4
Spain	1.3	1.2	1.0	0.5	1.5	1.0	1.8
Netherlands	0.3	1.0	1.2	0.8	1.6	0.8	1.2
Belgium	1.2	0.8	1.2	0.8	1.0	0.8	1.4
Greece	-2.8	0.2	1.5	1.5	1.1	1.3	1.4
Portugal	0.9	0.8	0.6	0.6	1.0	0.9	1.7
Switzerland	0.4	0.8	0.8	1.2	0.6	1.0	1.4

Emerging Markets (YoY% growth)	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2025F
Bulgaria	1.9	1.6	2.0	1.9	1.9	3.2	3.5
Croatia	2.0	1.1	2.3	2.0	1.9	2.7	2.5
Czech Republic	-1.3	-1.0	0.2	1.4	-0.2	2.5	2.7
Hungary	-0.6	-0.9	1.3	2.9	0.7	3.6	3.8
Poland	-1.2	0.7	0.8	1.5	0.5	2.4	3.5
Romania	3.8	2.8	1.9	2.0	2.5	3.7	3.5
Turkey	3.6	4.1	2.4	0.3	2.5	4.2	4.0
Serbia	1.1	0.9	3.1	3.6	2.2	3.8	4.5
Russia	-3.5	-2.5	-2.5	-2.7	-2.7	-2.0	0.0
Kazakhstan	3.5	4.0	4.1	4.1	3.8	4.0	3.0
Azerbaijan	2.5	2.8	3.2	3.4	3.0	2.5	2.5
China	3.8	6.0	4.8	5.4	5.0	5.3	5.1
India	3.4	8.3	7.2	6.9	6.4	6.7	7.4
Indonesia	4.4	4.3	4.7	4.9	4.6	4.9	5.0
Korea	0.6	0.2	0.4	1.5	0.7	2.2	2.1
Philippines	6.0	5.3	5.2	5.4	5.5	5.5	6.0
Singapore	2.4	2.2	2.2	2.7	2.4	3.2	3.0
Taiwan	-0.5	0.8	2.5	3.8	1.7	4.3	4.6

[1]Norway: Forecasts are mainland GDP
Source: ING estimates

CPI Forecasts (pa)

%YoY	1Q23F	2Q23F	3Q23F	4Q23F	2023F	2024F	2025F
US	5.9	4.3	3.5	2.9	4.1	1.9	2.1
Japan	3.6	2.7	2.2	1.4	2.5	1.7	2.0
Germany	8.7	6.9	6.6	4.4	6.5	3.0	2.0
France	7.0	6.7	5.5	4.4	5.9	2.9	1.4
UK	10.1	7.1	4.6	2.7	6.2	1.9	1.9
Italy	9.6	6.7	4.7	1.9	5.7	2.4	1.9
Canada	5.1	2.9	2.6	2.3	3.2	1.9	2.0
Australia	6.4	5.4	4.3	3.0	4.8	2.5	2.7
Eurozone	8.0	5.8	4.5	3.9	5.6	2.6	2.0
Austria	10.6	6.7	4.9	3.8	6.5	2.4	2.0
Spain	5.1	3.7	3.4	3.2	3.8	2.7	2.0
Netherlands	7.3	6.8	3.4	2.0	4.7	2.0	1.3
Belgium	7.4	6.3	4.9	3.9	5.7	2.4	2.1
Greece	6.6	4.1	2.9	3.3	4.2	2.2	2.1
Portugal	8.0	6.1	4.4	3.7	5.5	2.9	2.0
Switzerland	3.2	2.9	2.6	2.2	2.7	1.6	1.5
Bulgaria	15.3	11.1	10.0	9.3	11.3	6.7	4.0
Croatia	11.7	7.5	5.5	4.0	6.4	2.4	2.1
Czech Republic	16.3	13.6	10.1	9.0	12.3	2.8	2.3
Hungary	25.3	22.2	17.1	10.7	18.8	5.0	3.1
Poland	17.1	12.9	11.5	9.6	13.0	6.8	3.2
Romania	14.9	11.1	10.2	7.9	11.0	5.3	3.9
Turkey	54.3	44.3	44.0	45.8	46.7	32.4	19.3
Serbia	15.8	13.6	10.5	7.5	11.9	6.2	4.1
Russia	7.6	3.3	4.1	5.3	5.3	5.5	5.5
Kazakhstan	19.0	16.1	12.7	10.0	14.5	7.7	6.8
Azerbaijan	13.7	11.9	9.5	5.8	10.3	5.0	4.5
China	2.3	2.5	2.0	2.0	2.2	2.3	3.0
India	6.3	4.8	4.9	5	5.2	4.4	5
Indonesia	5.2	4.1	4.0	3.7	4.7	3.5	3.6
Korea	4.7	3.1	2.7	2.7	3.3	2	2.1
Philippines	8.4	6.3	5.6	4.4	6.2	3.9	3.5
Singapore	6.5	5.3	5.0	4.4	5.3	3.2	2.8
Taiwan	2.5	2.0	2.5	2.5	2.4	2.2	2.8

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas price forecasts (avg)

	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
$/bbl							
Brent	82.0	86.0	98.0	104.0	93.0	90.0	75.0
EUR/MWh							
Dutch TTF	53.0	47.0	45.0	60.0	51.0	53.0	50.0

Source: ING estimates

Disclaimer